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12 May 1955

CURRENT INTELLIGENCE WEEKLY SUMMARY



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State Department review completed

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THE WEEK IN BRIEF

PART I

OF IMMEDIATE INTEREST

USSR PREPARES
FOR GREAT-POWER TALKS Page 1

The new Soviet omnibus proposal on disarmament and reduction of international tension indicates that Moscow plans to bring up a broad range of subjects at the big-power meeting "at the summit." References to Germany suggest that Moscow's strategy will be to concentrate attention on limiting the armed forces of both East and West Germany as part of a wider European and global security and arms limitation system. [REDACTED]

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EASTERN EUROPEAN DEFENSE COMMAND Page 1

Speeches by Soviet and Satellite leaders at various Liberation Day celebrations made it clear that an Eastern European unified defense command will be formally established at the conference of Soviet bloc leaders which convened in Warsaw on 11 May. [REDACTED]

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SOUTH VIETNAM Page 2

France's somewhat grudging agreement at the conclusion of the Paris talks to "continue to support" Premier Diem, and French agreement to a progressive withdrawal of the Expeditionary Corps from Indochina, have bettered the prospects for a stable Vietnam government. [REDACTED]

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PART II

NOTES AND COMMENTS

Recent Soviet Diplomatic Moves: During the last few months, the USSR has been conducting a fast-moving diplomatic campaign designed to make Western defense plans ineffective by neutralizing a group of pro-Western states around the Soviet periphery. [REDACTED] Page 1

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Communists Keep Up Moderate Pressure on West Berlin: The East German government kept up moderate pressure on West Berlin during the past week. A new type of harassment occurred on 6 May, when two barges en route to West Germany through East German canals were stopped and their cargoes of scrap confiscated.

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Formosa Straits: The military lull in the Formosa Straits has continued. Britain and India are exploring with Chou En-lai the possibility of Sino-American negotiations.

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Japan's Relations With the Sino-Soviet Bloc: The Japanese government is manifesting an increasingly cautious attitude toward the talks with the USSR as the date for the conversations approaches. The Chinese Communist trade mission left Japan on 6 May in the midst of a heated controversy over a letter attached to the private Sino-Japanese trade agreement which pledged Prime Minister Hatoyama's "support and co-operation."

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Peiping Adopts Harder Economic Line: In the face of economic difficulties which are slowing down the rate of growth of economic output in Communist China, Peiping has adopted harsh measures to prevent curtailment of the militarization program and of the development of heavy industry.

Page 6

Afghan-Pakistani Crisis: The Pakistani "ultimatum" to Afghanistan, with its implied threats of economic blockade and rupture of diplomatic relations as of 15 May, has spurred the Afghan government into a series of urgent diplomatic maneuvers designed to ease the pressure on it. There is some evidence that Afghanistan's efforts have been successful.

Syrian Situation Remains Unresolved: The Syrian government continues unstable as elements of the army press the government to sign Cairo's proposed pact with Egypt.

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Hungarian Foreign Trade Difficulties: Unless Hungary can increase its exports considerably by the end of this year, when credit payments begin to come due, it will suffer a serious curtailment of supplies of badly needed foodstuffs and industrial materials which it has been importing from the non-Communist world. [REDACTED] Page 9

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Economic Consequences of an Austrian Treaty: The Austrians will welcome the end of the occupation, but they fear the economic consequences of forced payments to the USSR and of withdrawal of free-spending occupation troops from the American zone in western Austria. [REDACTED] Page 10

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Stage Being Set for New Talks on European Integration: In anticipation of the meeting of foreign ministers of the European Coal-Steel Community countries on 1 June, high officials of the six countries have been discussing ways of furthering the economic integration of Western Europe. [REDACTED] Page 11

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Mendes-France Wins Control of Radical Socialist Party: The success of ex-premier Mendes-France in gaining control of the French Radical Socialist Party machinery at the special congress on 4 May signifies that he has won the first round in his attempt to establish the basis for a left-of-center majority in the next National Assembly. However, no drastic change of the party's policy is expected. [REDACTED] Page 12

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British Election Prospects: The Conservative Party appears likely to emerge from the British general election on 26 May with a majority in parliament somewhat larger than it now has. [REDACTED] . . Page 13

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PART III

PATTERNS AND PERSPECTIVES

SINO-SOVIET BLOC ECONOMIC ACTIVITIES IN THE NEAR EAST AND SOUTH ASIA Page 1

The Sino-Soviet bloc is using an effective combination of propaganda, trade promotion and offers of economic aid in an attempt to persuade the underdeveloped countries of the Near East and South Asia to remain neutral in the cold war. The ultimate Soviet aim clearly is to establish a climate favorable for the extension of Communist influence. [REDACTED]

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THE AFRO-ASIAN CONFERENCE IN RETROSPECT Page 5

Deep ideological cleavages marked the Bandung conference despite the issuance of a unanimously approved communiqué calling for political, cultural and economic co-operation. [REDACTED]

SITUATION IN FRENCH NORTH AFRICA DETERIORATING Page 8

France is faced with a steadily deteriorating situation in North Africa despite measures apparently designed to reduce tension and meet nationalist demands. Negotiations for Tunisian autonomy, failure to act on long-promised reforms in Morocco, and imposition of a state of emergency in Algeria have strengthened native nationalism and solidified settler pressures for continuation of the protectorate regimes. [REDACTED]

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PART I

OF IMMEDIATE INTEREST

**USSR PREPARES FOR
GREAT-POWER TALKS**

The new Soviet omnibus proposal on disarmament and reduction of international tension indicates that Moscow plans to bring up a broad range of subjects at the big-power meeting "at the summit."

The Soviet proposal was presented by Malik at the London disarmament talks on 10 May and was publicized by TASS on 11 May as an item for next fall's General Assembly. It combines mild Soviet concessions on disarmament with continued opposition to West German rearmament. In proposing a broad political settlement, Moscow appears to be attempting to seize the initiative and to capitalize on the favorable reactions to its Austrian concessions.

Soviet leaders have not suggested any substantive changes in the USSR's positions on the basic political problems in Europe and Asia, but they

have added several new features to the USSR's disarmament plan.

Some of these were borrowed from British and French proposals made at the recent London talks and are likely to appeal to West European neutralist and anti-German sentiment. Moscow accepted British and French proposals for force levels and for timing the prohibition of nuclear weapons--when 75 percent of reductions of conventional armaments is accomplished. The proposals imply, however, no change in Soviet opposition to measures which would make effective international control possible.

References to Germany suggest that Moscow's strategy at the four-power talks will be to concentrate attention on limiting the armed forces of both East and West Germany as part of a wider European and global security and arms limitation system.

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**EASTERN EUROPEAN
DEFENSE COMMAND**

Pronouncements by Soviet and Satellite leaders at various Liberation Day celebrations made it clear that an Eastern European unified defense command to counter NATO will be formally established at the conference of Soviet bloc leaders which convened in Warsaw on 11 May.

East German leaders have also hinted that the formation of an East German army will be announced at the same time.

To provide maximum publicity and prestige for the conference and to emphasize the importance Moscow attaches to a peaceful solution of the

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German problem, the USSR sent Defense Minister Zhukov and Deputy Premier Pervukhin to the ceremonies in Berlin, and Deputy Premier Kaganovich to the celebration in Prague.

Representing the USSR and the Satellites at the Warsaw conference is the most impressive assemblage of Communist leaders since Stalin's funeral. The delegations include Soviet premier Bulganin, Foreign Minister Molotov, and Defense Minister Zhukov, and the premiers, foreign and defense ministers of every Satellite country.

Also attending as an observer is the Chinese Communist defense minister, whose presence is intended to indicate the support of his government for the conclusions of the conference.

The holding of the conference in Warsaw suggests that this city has been selected as the headquarters of the new defense command. This may also explain the appointment on 8 May as the new Soviet ambassador to Warsaw of P. K. Ponomarenko, a candidate member of the Soviet party presidium and first secretary of the party central committee of the Kazakh Soviet Socialist Republic.

While the new assignment for Ponomarenko could reflect a loss of status for him, it may indicate instead that the USSR considers it important to have a high-ranking party representative at the headquarters of its new defense command.

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SOUTH VIETNAM

France's somewhat grudging agreement at the conclusion of the Paris talks to "continue to support" Premier Diem, and French agreement to a progressive withdrawal of the Expeditionary Corps from Indochina, have bettered the prospects for a stable Vietnam government.

The question of Bao Dai's role was in effect sidestepped by the American and French conferees as Diem moved to head off Bao Dai's plan for a government reorganization by announcing on 10 May the formation of a new cabinet. The chief task of this government will be to organize a national assembly designed to set the seal on Bao Dai's ouster.

The new 14-man cabinet contains four holdovers from the previous cabinet, three Cao Dai representatives, and a number of respected nationalists who are primarily technical experts rather than political leaders.

Geographical distribution is: seven ministers of southern origin, three from the center, and four from the north. The group appears to be a capable and cohesive team, in which the influence of the anti-French, anti-Bao Dai extremists of the Revolutionary Committee is a minor factor.

Diem continues to prefer that Bao Dai be eliminated by

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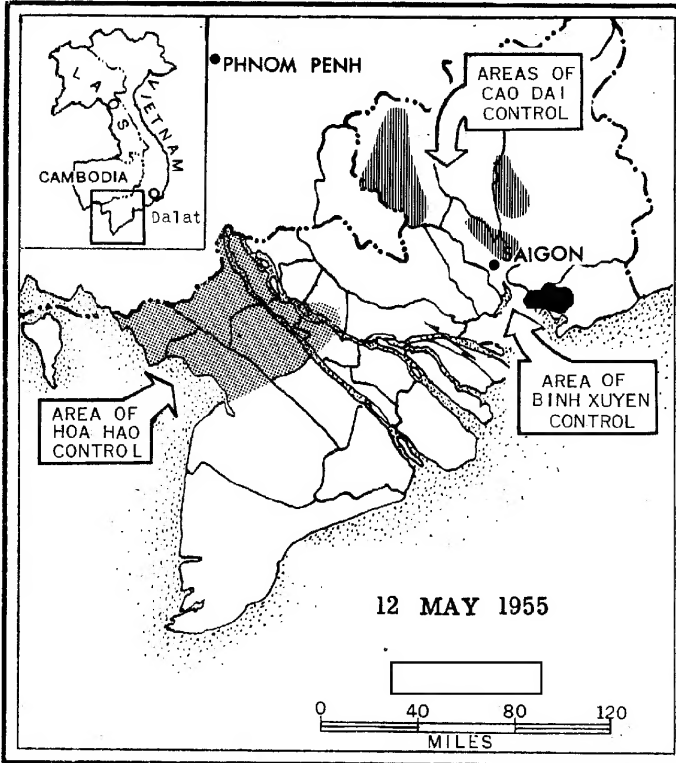
constitutional rather than revolutionary means, and he is maneuvering to curb the influence of the Revolutionary Committee.

Diem feels that the current wave of anti-French feeling and editorial comment in the Vietnamese press is justified and he is unwilling and perhaps politically unable to censor it completely. He points to the continued presence in Saigon of French reinforcements who were rushed there during the recent fighting as evidence that the French for their part are provoking this feeling.

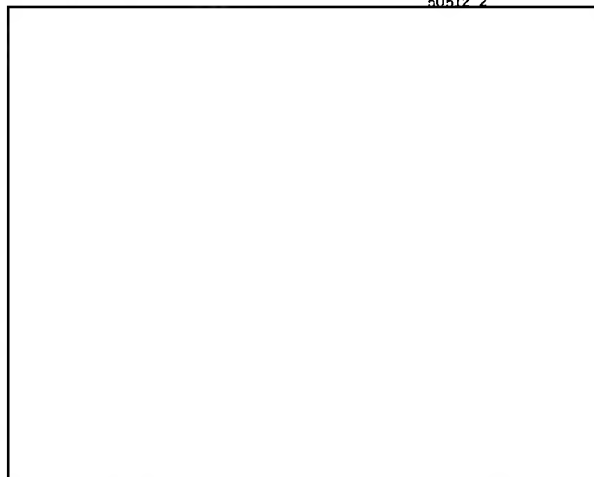
Diem's ambassador in Paris has reported the receipt of a cable from his government stating that the sooner the French Expeditionary Corps is withdrawn from Vietnam the better.

The consequences of such a withdrawal would depend largely on the manner in which it was carried out. An abrupt withdrawal would leave South Vietnam at the mercy of the Viet Minh and would create a feeling of insecurity from which the Viet Minh would undoubtedly profit. An orderly, phased withdrawal would provide valuable political capital for the Vietnam government.

Diem has denied the French assertion that the Revolutionary Committee is influenced by the Viet Minh



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The formation of a new cabinet and the successful military action against the Binh Xuyen have greatly

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strengthened the government's position, although it is still confronted with dissident elements of the Hoa Hao in western Cochinchina and with General Vy's announcement at Dalat, the traditional imperial stronghold, that he still considers himself commander of

all Vietnamese forces by order of Bao Dai.

The government's efforts to bring Hoa Hao dissidents over to its side and to re-establish national army control over the four battalions of the Imperial Guard at Dalat are continuing.

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PART II

NOTES AND COMMENTSRecent Soviet Diplomatic Moves

During the last few months, the USSR has been conducting a fast-moving diplomatic campaign designed to make Western defense plans ineffective by neutralizing a group of pro-Western states around the Soviet periphery.

The Soviet leaders apparently hope their moves toward "peaceful negotiations" will:

(1) persuade world opinion that only Washington is likely to initiate nuclear hostilities;

(2) disrupt plans to add to the Western coalition the military strength of potential allies like West Germany, Japan and Iran.

The Soviet leaders appear to be moving toward negotiating a modus vivendi with the West on terms that would bring about a reduction of international tension and would not require the USSR to surrender any strategic areas now under Soviet control.

In order to show that the USSR is not negotiating from weakness, Soviet leaders have recently stressed military preparedness, paraded new bombers over Moscow, and, with much fanfare in Berlin, Prague, and Warsaw, prepared to set up a unified Soviet bloc military command.

An increased note of orthodoxy has appeared in Communist publications in recent months. It is probably intended to reassure party zealots that "peaceful coexistence" does not mean the end of revolutionary Communism but will

lead to a new era of expanding Soviet power.

The general pattern of Soviet moves has been the same around the world with some variation in tactics geared to local situations.

In the Far East, both Peiping and Moscow have been concentrating on Tokyo's traditional need for Asian markets. A Chinese Communist trade delegation has just returned from exploiting the political vulnerabilities of the Hatoyama government, and the USSR has agreed on London as a site for a 1 June meeting with Japan to discuss "normalizing" both diplomatic and economic relations with the USSR.

With direct talks between Washington and Peiping in the offing, the Chinese Communists continue to maintain political and military pressures on Formosa and watchfully wait while the time for elections in Indochina draws near and Vietnam continues to be in political turmoil.

In the Near and Middle East, the USSR has adopted a variety of tactics to disrupt Western defense plans.

It has been cultivating Nehru as the "spokesman of neutral nations" and has invited him to visit Moscow this June. The USSR may also have encouraged Nehru to send Krishna Menon to Peiping. India has been the main non-Communist recipient of Soviet technical and economic aid.

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The Afghanistan-Pakistan feud has provided troubled political waters to fish in. In this situation, Moscow has only needed to keep Kabul assured that technical and economic aid is available and to encourage the crisis with moral support for opportunistic Afghan politicians.

This situation diverts Pakistan from its role as the eastern anchor of the "northern tier" defense line in the Middle East, a line which only recently began to take shape. The conclusion of the Iranian-Soviet treaty has probably forestalled Iran's inclusion in the "northern tier" for 18 months, the period over which the agreed payment of Soviet goods and gold extends.

Recent Soviet pro-Arab and anti-Israeli diplomatic declarations and propaganda have been designed to weaken the western end of the Middle East defense line by mobilizing neutral Arab states and keeping Syria from joint the Turkish-Iraqi treaty.

In Europe, the USSR, after stalling for years, is now receiving plaudits for promising to neutralize a non-Orbit area with no primary strategic or political value, and to withdraw Soviet forces as far as the Austrian border, where they can be incorporated into the new joint Soviet-Satellite military command promised by the USSR as a counter to West Germany's entrance into NATO.

Germany still looms as the main target of the campaign. The Soviet leaders

would certainly consider the concessions on Austria a ridiculously low price for paralyzing progress on West German rearmament. Quite possibly, the Bulganin regime anticipates retaining control of East Germany and bargaining directly with Bonn on German unification.

At any big-power talks, Moscow will probably try to mobilize West European support for setting up a system of neutral states with strict limits on armaments. Soviet leaders may hope to delay a real German contribution to NATO, perhaps long enough for Adenauer to die and British and French interest in heavy military commitments and support for high taxes to evaporate.

This campaign to convince Western-oriented governments that in a period of lessening international tensions, neutrality is a feasible and logical alternative to an expensive and dangerous role as an ally of the United States is not meeting with a completely unreceptive audience.

For example, in conversations with the British ambassador, Tito balked at the inflexibility which he felt American aid had imparted to his position, and speculated that eventually Europe might see the formation of a "cordon sanitaire," a kind of belt of neutral states composed of Yugoslavia, Austria, Germany and Sweden, to which even the Netherlands might belong.

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Communists Keep Up Moderate Pressure on West Berlin

The East German government kept up moderate pressure on West Berlin during the past week.

No new restrictions were imposed on the movement of trucks along the routes between West Berlin and West Germany, and vehicular traffic continued at a normal level.

A new type of harassment occurred on 6 May, when two barges en route to West Germany through East German canals were stopped and their cargoes of scrap confiscated by the East Germans on the pretext that their cargo declarations were false. Seven other barges have also been detained, and the fate of their cargoes is still unknown.

The threat to introduce additional security measures adversely affecting West Berlin was renewed by East Germany on 4 May.

At a well publicized press conference on that date, an East German security police official referred to the announcement of 12 April that

521 alleged Western agents had been arrested. He stated that unless West Berlin officials took steps to stop the activity of Western intelligence agencies operating from West Berlin, East Germany would be forced to take measures for its own protection.

The position of the East German government on the question of negotiating the truck toll remains unchanged. It is still endeavoring to gain West German acceptance of talks on a higher level than Bonn officials are willing to accept.

No further discussions between East and West German officials are likely to be held until after the meeting of the four high commissioners scheduled for 20 May.

The first indication that the selective West German embargo on the shipment of goods to East Germany may be having some effect came in an East German broadcast on 3 May stating that because of the embargo, the movement of goods in inter-zonal trade was unsatisfactory.

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Formosa Straits

The military lull in the Formosa Straits area has continued. Britain and India are exploring with Chou En-lai the possibility of Sino-American negotiations.

The only significant Chinese Communist offensive action in the Formosa Straits in the past week was the firing of 161 rounds of artillery against islands in the Quemoy

group. The shelling was light in terms of Chinese Communist capabilities, although it was the heaviest fire on any one day since 18 December.

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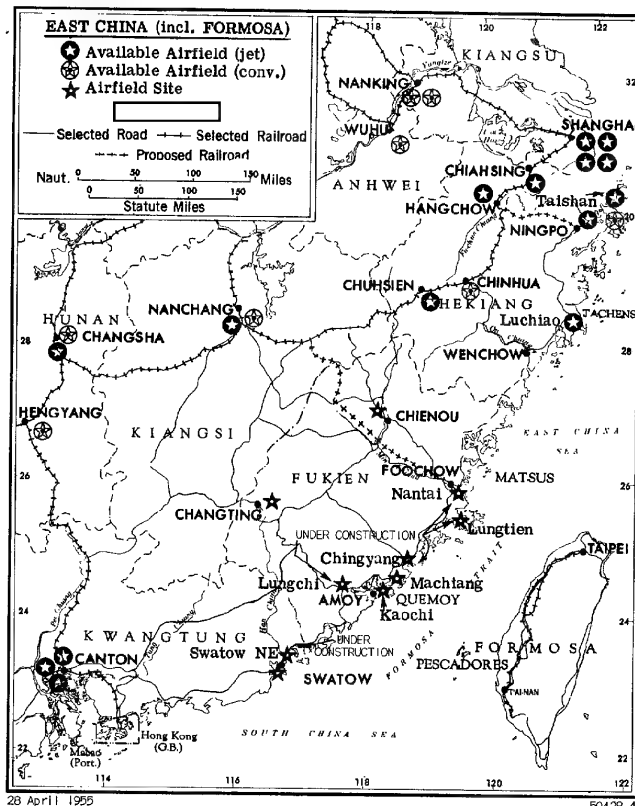


There is some evidence that the Communist torpedo boats recently reported near the Matsus are equipped only with light anti-aircraft machine guns. Equipped in this manner, these craft would not endanger Nationalist naval patrols in the area.

Another Chinese Communist anti-aircraft artillery division has been identified in the vicinity of Foochow, opposite the Matsus, and is believed to have been there for some time. Only one AAA division and a regiment had previously been identified in Fukien.

Morale is reported high in the Nationalist garrison on the Quemoy, and some improvement has been noted in the Nationalist position there.

Some difficulties are also apparent, however. Too much time is being spent on permanent construction work rather than training; the time lag involved in the arrival of air support from Formosa is too great; naval support is inadequate, apparently because the local naval commander ignores the orders of the Quemoy defense commander; and the operation of



electronic and communications equipment is unsatisfactory.

Peiping radio has refrained from comment during the past week on the topic of Sino-American negotiations. The Chinese Communists have reaffirmed, however, their intention to "liberate" all Nationalist-held territory despite American actions and "threats."

British chargé Trevelyan in Peiping was received by Chou En-lai on 9 May to discuss the Chinese Communist position on negotiations. India's Krishna Menon arrived in Peiping on 11 May with the reported mission of encouraging bilateral Sino-American talks limited to a cease-fire.

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There is as yet no information on the efforts of either Trevelyan or Menon. Chou may be repeating his assertion, made to Afro-Asian delegates at Bandung, that the first step is to determine whether the United States is willing to undertake negotiations.

On substantive issues, Peiping has consistently argued that there is no need for a cease-fire, that the status of Formosa is not negotiable, and that the only matter to negotiate is a withdrawal of American forces from the China area. This is not necessarily, however, Peiping's final position.

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Japan's Relations With the Sino-Soviet Bloc

The Japanese government is evidencing an increasingly cautious attitude as the date for talks with the USSR approaches.

Concomitant with this new-found wariness toward Moscow, Prime Minister Hatoyama and members of his cabinet are attempting to shore up Japan's position vis-a-vis the United States.

In Diet interpellations on 9 May, Hatoyama declared that while his government hoped to normalize relations with the USSR and to conclude a peace treaty at an early date, "settlement of pending issues" would have to be taken up at the same time.

In a surprising show of intragovernmental unity, the prime minister said that the negotiations will be left in the hands of his foreign minister, Mamoru Shigemitsu. Moreover, chief delegate Shunichi Matsumoto is reported to have won broad authority for the conduct of the negotiations from the cabinet, and is now trying to obtain blanket backing from the opposition parties.

Shigemitsu, for his part, asserted that Japan would

conduct the talks from its "own standpoint" and that he saw no possibility that Tokyo and Moscow would exchange diplomatic missions before the signing of a peace treaty. The foreign minister added that close liaison would be maintained with the United States to avoid "misunderstandings."

It is believed in Tokyo that the government's sudden urge to "reassure" the United States is the result of recent news stories from Japanese correspondents in Washington. These stories, which intimated that the United States was displeased over Japan's policy of friendship for the Sino-Soviet bloc, are reported to have had considerable impact on the government.

The Chinese Communist trade mission left Japan on 6 May in the midst of a heated controversy over a letter attached to the private Sino-Japanese trade agreement by Shozo Murata, the conservative president of a Communist trade front. The letter noted Prime Minister Hatoyama's unofficial pledge of "support and co-operation," a statement which the Chinese delegates and their Japanese friends chose to interpret as a Japanese government pledge that the agreement would be fulfilled.

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The government has repeatedly refused to conclude a payments agreement between the central banks of Japan and Communist China, grant diplomatic status to permanent Chinese Communist trade representatives, or commit itself on the question of joint sample fairs.

Many Diet members interested in expanding China trade are bringing pressure to bear on the government, and Foreign Minister Shigemitsu announced on 10 May that Peiping would be allowed to establish a permanent trade mission in Japan, although the mission would have no diplomatic privileges.

The Chinese delegates announced that only a few long-term contracts were provisionally concluded because of a lack of time. Among these are orders for six tankers and freighters and an unspecified number of steel tuna boats

valued at \$2,500,000--all items banned by CHINCOM. The purchase of at least 120,000 tons of Chinese rice, and perhaps as much as 200,000 tons, was provided for in the agreement, against 80,000 tons last year.

Although Sino-Japanese trade is expected to increase moderately this year over 1954, only a relatively minor portion is likely to be transacted under the terms of the agreement. The significance of the agreement is primarily political since Hatoyama has in effect promised to seek a relaxation of the international embargo on Orbit trade.

Prime Minister Hatoyama's statement on 10 May that he felt "the time was approaching" for Japan to recognize Communist China again emphasized Japanese aspirations for normal relations with Peiping.

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Peiping Adopts Harder Economic Line

In the face of economic difficulties which are slowing down the rate of growth of economic output in Communist China, Peiping has adopted harsh measures to prevent curtailment of the militarization program and of the development of heavy industry.

Peiping has indicated, in a directive on 28 April and in recent radio commentaries, that it intends to tighten its rural food collecting and marketing policies, despite the widespread "tension" these policies are admittedly causing.

The policies were adopted in 1953, at the beginning of

the first Five-Year Plan, in order to extract increasing quantities of food from the countryside for military, urban and export uses. They are particularly onerous this spring because of last year's crop failures and current agricultural difficulties.

The regime appears unworried, however, by the increasing rural hostility aroused by its policies, and is still strengthening its controls in the countryside.

Meanwhile, the authoritative Peiping People's Daily called on 1 May for a temporary halt in construction of

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all projects not essential for the development of heavy industry. The paper further indicated that even more austerity, a keynote of the first Five-Year Plan, is in prospect for the Chinese people.

A concrete indication of the economic difficulties confronting Peiping is the modest scale of the published 1955 economic output goal. Industrial and agricultural output is expected to rise only 7 percent above that of 1954, well below the 12.6 percent

annual increase which was planned but not reached in 1954.

The new target indicates Peiping recognized its current agricultural problems, e.g., drought and the disrupting effects of socialization, will probably preclude bumper crops this year; and that industrial output is rising at a declining rate, with the increase this year possibly as low as 10 percent, as compared with 15 percent last year and 33 percent in 1953. [redacted] (Concurred in by ORR)

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Afghan-Pakistani Crisis

The Pakistani "ultimatum" to Afghanistan, with its implied threats of economic blockade and rupture of diplomatic relations as of 15 May, has spurred the Afghan government into a series of urgent diplomatic maneuvers.

These maneuvers seem to have been nine parts bluff. The government is aware of Afghanistan's military weakness compared to Pakistan, and it has had no reason to believe from previous experience that any other nation, except possibly India, would support it.

Nevertheless, a report from the British high commissioner in Karachi on 11 May suggests that the Afghan bluff has been successful. According to the high commissioner, Pakistani prime minister Mohammad Ali told him the day before that Pakistan had decided to accept a tender of "good offices" by Egypt, Saudi Arabia, and Iran to help settle the dispute.

Press reports also hint at this possibility, and Law Minister Suhrawardy told an

American embassy officer on 10 May that the Pakistani cabinet had decided to defer drastic action beyond the 15 May deadline.

Pakistan may have felt, on the other hand, that it must accept even an impartial tender of good offices. Karachi may have feared that the United States and Britain would decline to support rejection of such an offer.

The British government has expressed its concern over the explosive nature of the situation and on 10 May was considering suggesting to Pakistan that it agree to the establishment of a fact-finding commission composed of Moslems. The American government has also pointed out possible

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dangerous results of the contemplated Pakistani action and has inquired as to Pakistan's true intentions.

"Fact-finding" or mediation by a number of Moslem countries at this time would provide the Afghan government with the delay it has been seeking. On the other hand, it may also encourage Daud strongly to resist any future efforts of the royal family to change his attitudes or to

oust him from office, since he would be encouraged by what he will probably interpret as a sign of Pakistani weakness in the face of Afghan pressure.

It is also probable that Egypt, Saudi Arabia and Iran will spend several months in exploring the situation and that no firm settlement will eventuate. Delay, therefore, is likely to result merely in continued confusion.

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Syrian Situation
Remains Unresolved

The Syrian government continues unstable as elements of the army press the government to sign Cairo's proposed pact with Egypt. Conservative government leaders hesitate, while Iraqi agents strive to counter Cairo's faction. A violent upheaval remains possible.

Army supporters of the murdered army assistant chief of staff, Malki--partisans of the leftist Arab Socialist-Resurrectionist Party (ASRP)--and parliamentary elements supporting conservative President Atasi effected a compromise on 2 May providing for the army's cracking down on the Syrian Social National Party, which the leftists hold responsible for Malki's death.

The army-ASRP clique has threatened violence and a military coup on several occasions if the government did not yield to its point of view. This clique has suffered a serious loss in the death of Malki, but it can probably still intimidate the government.

The group still insists that Syria sign Cairo's proposed defense pact.

Ambassador Moose in Damascus observes that there is no easy solution to the problem of stopping the "accelerating Syrian drift to the left." Syrian conservatives may yet display enough courage to stop the left-wingers, he suggests, but reliance solely on local politicians may turn out to be "a forlorn hope."

Iraq's Prime Minister Nuri appears at least to condone the reported efforts of some Iraqi elements to intervene actively in Syria.

The Iraqi government has reiterated that it cannot refuse a request from a legal Syrian government for Iraqi military aid to restore order.

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Hungarian Foreign Trade
Difficulties

Inability to produce and market adequate quantities of exports in the West has forced Hungary to obtain Western credits and special financing arrangements to cover part of its badly needed imports. Hungary has, moreover, recently resorted to selling some goods abroad at extremely low prices.

The Hungarian balance of trade has become increasingly unfavorable since 1951. In 1954, out of a total trade turnover of \$194,000,000 with the non-Communist world, Hungary ran over a \$38,000,000 deficit.

Traditionally an exporter of agricultural products, Hungary has been forced by serious agricultural shortfalls to import large quantities of grain from the West in the past 18 months. Between October 1953 and the close of last year, it contracted to purchase on 12- or 18-month credits some \$40,000,000 worth of wheat and other grains.

Early this year Hungary had some success in obtaining additional credits and in raising the ceilings on the amount of deficit permitted on current trade accounts with non-Communist countries.

Hungary's failure to expand exports to keep pace with its increased imports from the non-Communist world is symptomatic of the general failure of Hungarian economic policy.

New course efforts to increase agricultural output and expand agricultural exports failed. Poor agricultural performance in 1953 and 1954 has necessitated large imports of foodstuffs. The program of providing additional

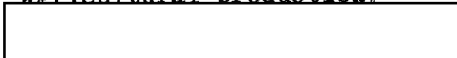
material incentives and increased investments to step up production of good-quality light industrial products at reasonable cost has met with disappointing results.

Many potential Western buyers doubt Hungary's ability to meet competitive quality and price standards and to adhere to delivery schedules.

Unless its exports can be expanded considerably by the end of this year when payments on a number of credits will come due, Hungary will be faced with a curtailment of supplies of foodstuffs and industrial materials from the non-Communist world. Such a curtailment of essential supplies would compound Hungary's internal economic difficulties, particularly if this year's crops are not satisfactory.

Although the USSR could presumably ease Hungarian trade difficulties with the West by supplying grain on long-term credits, it has so far apparently declined to do so. Soviet refusal to accept certain Hungarian-manufactured goods for which the USSR had contracted earlier saddles Hungary with a surplus which it is having difficulty marketing in the West at competitive world prices.

At the same time, Soviet-dictated maintenance of high priority on heavy industrial production further complicates the Hungarian dilemma by forcing an increase in imports of industrial raw materials and limiting the amount of funds Hungary can invest to boost agricultural production.



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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****12 May 1955****Economic Consequences
Of an Austrian Treaty**

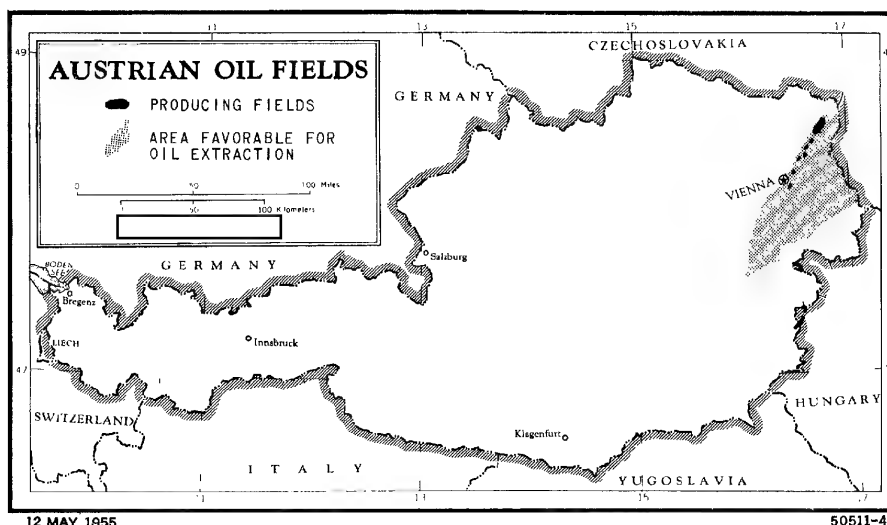
The Austrians will welcome the end of the occupation, but they fear the economic consequences of forced payments to the USSR and of withdrawal of free-spending occupation troops from the American zone in western Austria.

American officials estimate Austria's net additional budgetary expense during the first year under the proposed treaty at about \$46,000,000.

The Austrian economy could probably bear these costs, although a cutback in the

to the USSR annually for ten years as payment for the return now of all oil properties; (2) pay the equivalent of \$150,000,000 in goods in six equal annual payments for the immediate return of the estimated 240 industrial and commercial businesses now controlled by Soviet Enterprises in Austria; and (3) pay the USSR \$2,000,000 for the return of Danube Shipping Company assets in the Soviet zone.

In addition to these mandatory expenditures, Austria would take on the problem of



government's long-term investment program would be necessary to avoid an aggravation of the present mildly inflationary situation.

Under the proposed settlement, the USSR would liquidate all its economic holdings in Austria. The Austrians, in turn, would undertake to:

- (1) ship 1,000,000 tons of oil

creating and maintaining its own armed forces. Present plans call for a force of 25,000 within one year, and a 53,000-man force by the end of the second year. The necessary basic equipment for such a build-up would probably have to be imported. The Austrians may be able to obtain this equipment at little or no cost.

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The evacuation of occupation troops will result in the loss to the Austrian economy of an estimated \$55,000,000 annually. The American army alone currently employs about 4,900 Austrians. Spending by occupation troops has also been a major item, and western Austria, particularly the Salzburg area, would be hard hit by the troop withdrawal. This might be partially offset, however, by an increase in tourism in the next few years.

Soviet oil production in eastern Austria has been at an annual rate of about 3,000,000 tons for the last few years. The USSR's net profit from this production, however, is believed to have been only about the equivalent of 1,000,000 tons per year.

Austria's oil reserves are limited and production is expected to decline over the next few years.

In view of this and counting the mandatory shipments to the Soviet Union, the oil fields would probably be operated for the next ten years at a net loss to the Austrian government.

Many of the Soviet Enterprises in Austria are badly run down, and any profits which might be derived from them would be needed for reinvestment in the physical plants. Consequently, the payments for the Soviet properties would also constitute a loss to the Austrian government.

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State Being Set For New Talks
On European Integration

In anticipation of the 1 June meeting of foreign ministers of the European Coal-Steel Community countries, high officials of the six countries have been discussing ways of furthering the economic integration of Western Europe.

Chancellor Adenauer and French foreign minister Pinay announced on 1 May, following their meeting in Bonn, that they had agreed to survey the practical possibilities for further integration measures, and the French government has already set up an interministerial working party to develop concrete proposals for the coming conference.

The three Benelux countries, which fear that the French-German economic agreement of last fall may work

against their interests, are preparing a joint paper on integration which they hope will be given preliminary CSC consideration and later serve as the basis for a European intergovernmental conference on European unity.

The most radical view thus far advanced for CSC discussion is that of the Netherlands, whose Co-Foreign Minister Beyen has advocated agreement in principle among the six CSC countries on an over-all customs union under a supranational authority. Such an authority--in effect a European executive--would preside over the gradual elimination of tariff barriers and presumably would enforce an anti-cartel law and administer a reconversion fund for industries hurt by "European" competition.

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An intermediate view, supported by Belgian foreign minister Spaak, CSC president Jean Monnet, and to some extent by Adenauer, would continue the "sector-by-sector" approach to integration represented by the CSC. This approach would involve either an extension of the CSC to cover transportation, aircraft construction, and conventional and atomic energy, or the establishment of new "pools" in these fields parallel to the CSC. Also included would be proposals for the popular election of the CSC's Common Assembly.

A third approach is that which American observers in Paris expect the French government to put forward. The French proposals would stress the "pragmatic" possibility of a new ad hoc organization in various energy and transport sectors. These organizations would have few supranational features, and their membership would vary by sector and might extend beyond the CSC countries.

[redacted] this is about the maximum the present French government is prepared to offer. This would give some satisfaction to the French "Europeans," whose influence in the Faure government is considerable. At the same time, it would avoid offending the nationalists and would enable France to avoid an entirely negative position when the other CSC countries are prepared to go much further.

Foreign Minister Pinay, however, is likely to be under strong pressure at the Luxembourg meeting to take more radical steps. The argument has gained increased currency in recent weeks that the newly sovereign West Germany can best be tied to the West through the further economic integration of Western Europe.

Adenauer, a good European, may even be prepared to sweeten this for the French by approving the construction of the Rhine-Moselle canal so earnestly desired by the Lorraine industrialists. [redacted]

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Mendes-France Wins Control Of Radical Socialist Party

Former premier Mendes-France, who gained control of the party machinery of the French Radical Socialist Party of Premier Faure on 4 May, has won the first round in his attempt to establish the basis for a left-of-center coalition majority in the next National Assembly.

At the special party congress on 4 May, one of the most unruly in the Radical Socialists' history, the Mendes-France faction brought

about the ouster of party president Martinaud-Deplat and the appointment of a seven-man committee to work out a platform definitely identifying the Radical Socialists as a party of the left. The platform will probably call, as previous platforms have, for increased government investment in industrial plants, farm equipment, and housing.

Between now and the party's regular annual congress in October, considerable bickering

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can be expected over the steam-roller tactics used on 4 May. The party's executive committee has already questioned the status of the new seven-man committee and wants to limit the scope of its activities.

The party has usually been able to compose its differences in the past, however, and since its appeal to the electorate is normally couched in terms of a leftist program, most members can be expected to agree on a platform.

In the unlikely event that party discord gets out of hand, a showdown could threaten the Faure government. In view

of Faure's present relatively strong position in parliament and in the country as a whole, however, Mendes-France is unlikely to seek control of the government prior to the national elections to be held before mid-1956.

Mendes-France's strategy probably will be aimed at achieving an electoral alliance with the Socialists. To assure a parliamentary majority, however, he must reach some compromise with the Popular Republicans on the clerical issue affecting aid to church schools or else succeed in winning over their party following.

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British Election Prospects

The Conservative Party appears likely to emerge from the British general election on 26 May with a majority in parliament somewhat larger than it now has.

In the campaign which opened officially on 6 May, the Labor Party has been hard pressed to counter effectively the Conservatives' assertions that since they took over the government in October 1951, Britain has become relatively prosperous and has increased its international stature.

Nevertheless, a Gallup poll published on 6 May showed the Conservatives with a lead of only one percent over Labor. On balance, it now appears that only a first-class international crisis or domestic blunder would bring about a drastic shift in favor of either party.

Conservative electioneering on foreign affairs issues has thus far stolen Labor's thunder. Prime Minister Eden's call for an early East-West meeting "at the summit" with a broad agenda is, like the government's urgings that disarmament be on the agenda of such a conference, a highly popular proposal. It has probably strengthened the already widespread public approval of the government's conduct of foreign relations. Private statements by British officials leave the Conservatives freedom to modify their stand on these matters later.

In the interest of party unity, the moderate Labor leaders have been forced to adopt the emotional Bevanite line on these issues. Their position has been weakened, however, because of the Conservatives' ability to point

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BRITISH ELECTION RESULTS 1951

Party	Seats	Popular Vote	Percentage
Conservatives and associates	321	13,724,418	48.04
Labor	295	13,948,385	48.73
Liberal	6	730,551	2.53
Communists	-	21,640	0.08
Other	3	177,329	0.62
Totals	625	28,602,323	100.00

82.6 percent of the eligible electorate voted.

that the Conservatives are not much interested in the welfare of the working classes. That the government is aware of this sentiment is shown by its obvious attempt in the new budget to appeal to skilled workers in the middle-income group.

Moreover, in contrast to 1950 and 1951 when the major election effort was aimed at attracting the so-called floating vote, the current emphasis is on getting out the committed voters.

Before the 1951 elections, the uncommitted vote was estimated to be about 2,600,000, more than 7 percent of the 34,000,000 eligible voters. In the 1951 election, however, minor parties received a total of only about 900,000 votes. Furthermore, leaders of both major parties believe that most of the 17.4 percent who did not vote in 1951 favor one or the other of the two major parties, and they are making a strong effort to get them to the polls this time.

The lack of a critical issue may result in a relatively small turnout, a circumstance which in the past has generally favored the Conservatives.

The redistribution of seats, which has increased membership in the House of Commons from 625 to 630, is believed to favor the Conservatives more than Labor. British observers estimate that Labor must increase its 1951 popular vote by 2 percent in order to control the House of Commons.

out that it was the 1945-51 Labor government which initiated the development of atomic weapons in Britain and insisted on the primacy of the Anglo-American alliance.

On domestic issues, too, the Conservatives have improved their already strong position. Improvement in April in the balance of payments situation, tax concessions in the budget presented on 19 April, and the fact that wage increases have outstripped rises in the cost of living can all be cited by the government as evidence of its successful economic policies.

The Labor Party's program calling for further nationalization and renewed economic controls shows little change from the 1951 platform and will probably have no more attraction for voters now than it did then.

In contrast to the government's strong position on practical issues, there are several basic factors in the British electoral situation which argue against a substantial increase in the Conservatives' majority.

The rank and file of the Labor Party remain convinced

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PART III

PATTERNS AND PERSPECTIVESSINO-SOVIET BLOC ECONOMIC ACTIVITIES
IN THE NEAR EAST AND SOUTH ASIA

The Sino-Soviet bloc is using an effective combination of propaganda, trade promotion, and offers of economic aid in an attempt to persuade the underdeveloped countries of the Near East and South Asia to remain neutral in the cold war. The bloc is not following a systematic plan but is concentrating on exploiting specific trade and aid opportunities as they arise.

The ultimate Soviet aim clearly is to establish a climate favorable for the extension of Communist influence.

The economic campaign has been gaining momentum slowly. This is partly because the campaign's demands must be weighed against the immediate needs of the bloc's own industrial development program.

Small trade increases have been achieved, and a number of aid projects are under way in such nations as Afghanistan and India. The present size and continuing development of the Soviet industrial base will permit a much larger trade and aid effort in the future.

Communist China's limited industrial development has restricted its economic relations with Southeast Asia to trade. As part of its program of splitting Asian countries from the West, China has purchased commodities not essential to its economy and paid excessive prices for items which it could have obtained through other trade channels at less cost.

Planned shipments and recent offers to export increasing quantities of industrial goods and machinery to Southeast Asia will make it impossible

for Peiping to fulfill domestic demand for these goods which Communist China itself must continue to import.

Peiping's recent offer of limited technical assistance is designed to increase the international stature of China as a nation rapidly progressing toward industrialization.

Propaganda

Sino-Soviet bloc economic propaganda describes aid in the form of private capital from the West as exploitation because the Western firms obtain ownership or stock interest. Aid from Western governments is pictured as always being accompanied by Western efforts to control the government policies of the underdeveloped countries.

Bloc capital, by contrast, is said to be furnished without strings and in the form of long-term credit at low interest rates with provision for at least part of the repayment in the form of exports from the borrowing country.

Western capitalists are also pictured as constantly trying to force down the prices of raw materials, on which many of the underdeveloped countries depend for virtually all of their foreign exchange earnings.

Instead of subjecting their economies to the dislocations, unemployment and impoverishment which the Communists claim result from price fluctuations of capitalist export markets, the underdeveloped countries are urged to sign trade agreements with bloc countries which are willing to offer "long-term fixed prices."

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Trade Fairs and Promotion

Sino-Soviet bloc countries have participated in an increasing number of trade fairs in non-Communist countries since 1950. They exhibited in 40 such fairs in 1953 and 53 in 1954. Participation in more than 60 is expected this year, of which 13 will be held in the underdeveloped countries of the Near East and South Asia. The bloc exhibits stress primarily claims that high levels of technical advancement and industrial progress have been achieved under the Communist system and that bloc peoples are materially well off.

In trade negotiations and in propaganda, the bloc countries have emphasized their willingness and ability to export large quantities of capital goods to the underdeveloped countries in exchange for raw materials. The volume of capital goods actually exported is, however, increasing only slowly.

The USSR and China have also encouraged visits by business and government officials in order to show off the economic accomplishments of the Communist system and to promote a desire for trade expansion.

There was a considerable increase in bloc trade with some countries in the Middle East and Southeast Asia during 1954 compared with the previous year, but the absolute volume is still very low. The framework for achieving a more significant volume in the future has, however, been markedly improved. In the last year a large number of additional trade agreements were signed, and the bloc has expanded its trade representation in the area.

Economic Aid

By concentrating on offers of technical assistance in the construction of industrial facilities, the bloc has appealed to the hopes, which are widespread in underdeveloped

countries, for rapid development of basic industries. This focus of the bloc aid expenditures, which are small indeed compared to the American aid program, has attracted attention far out of proportion to the amounts spent by the Communists.

In addition to aid offers specifically for industrial plant construction, the USSR and the Satellites have indicated willingness to supply military equipment or to aid in the construction of plants to produce such equipment in India, Burma, and possibly Indonesia and Afghanistan.

The bloc has concentrated its offers of strictly economic aid in India, Afghanistan, Indonesia and Burma. Some sort of economic aid overture has, however, been made to almost every country in the Middle East or South Asia.

The USSR has also pledged 12,000,000 rubles (\$3,000,000 at the official rate of exchange) to United Nations technical assistance funds, specifying that this aid must take the form of Soviet equipment and technical advisers or of educational training inside the USSR. Several underdeveloped countries, including Afghanistan, India, Pakistan and Jordan, have applied for Soviet aid through this channel.

Technical Aid to India

The most dramatic example of bloc technical aid is the Soviet contract to furnish India a 1,000,000-metric-ton steel plant by 1959. The equipment supplied by the USSR will cost more than \$90,000,000, nearly half the total estimated cost of the plant. Repayment for the Soviet equipment is to be in 12 equal annual installments at the low interest rate of 2.5 percent.

The USSR has also contracted to supply all the equipment and to assist in the

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construction in India of a tool factory.

In addition, Soviet mining engineers surveyed the Panna diamond mines for an Indian diamond mining syndicate following which large orders were placed for Soviet equipment. Payment is reportedly to be made in the form of shipments of diamonds.

The USSR has furnished specialists and electronic computers to the Indian Statistical Institute, which provides support for the Indian government's economic planning.



Sample Soviet-made tractors were supplied to India some months ago, and the Indians have recently placed their first orders for a number of them at favorable prices. The USSR has also indicated willingness to supply sample Soviet automobiles, suggesting that after these had been tested in India and found satisfactory, discussions could be held on Soviet assistance in setting up an automobile assembly plant.

The USSR has encouraged visits of Indian agricultural and industrial specialists. Invitations to Indian nationals to take technical training in the USSR presumably will increase as Soviet-built machinery begins to be used in Indian industrial plants.

New Delhi has turned down Soviet offers to provide military equipment for the Indian armed forces and to install an aircraft factory in India.

Hungary is building a large electric wire plant to serve the Bhakra-Nangel hydro-electric project.

East Germany is reportedly to aid in the construction of

a gunpowder and fuse factory, and has been negotiating with an Indian firm on construction of an iron foundry. It is also to deliver equipment for India's electric power and concrete industries, under the terms of the current trade agreement between the two countries.

Czechoslovakia is also expanding deliveries of various types of machinery to India.

Credits to Afghanistan

Since January 1954, the Soviet Union has provided credits of more than \$6,000,000 for specific aid projects in Afghanistan at a low interest rate. Repayment is to be in Afghan exports. At least 160 Soviet technicians are believed to be in Afghanistan in connection with these projects.

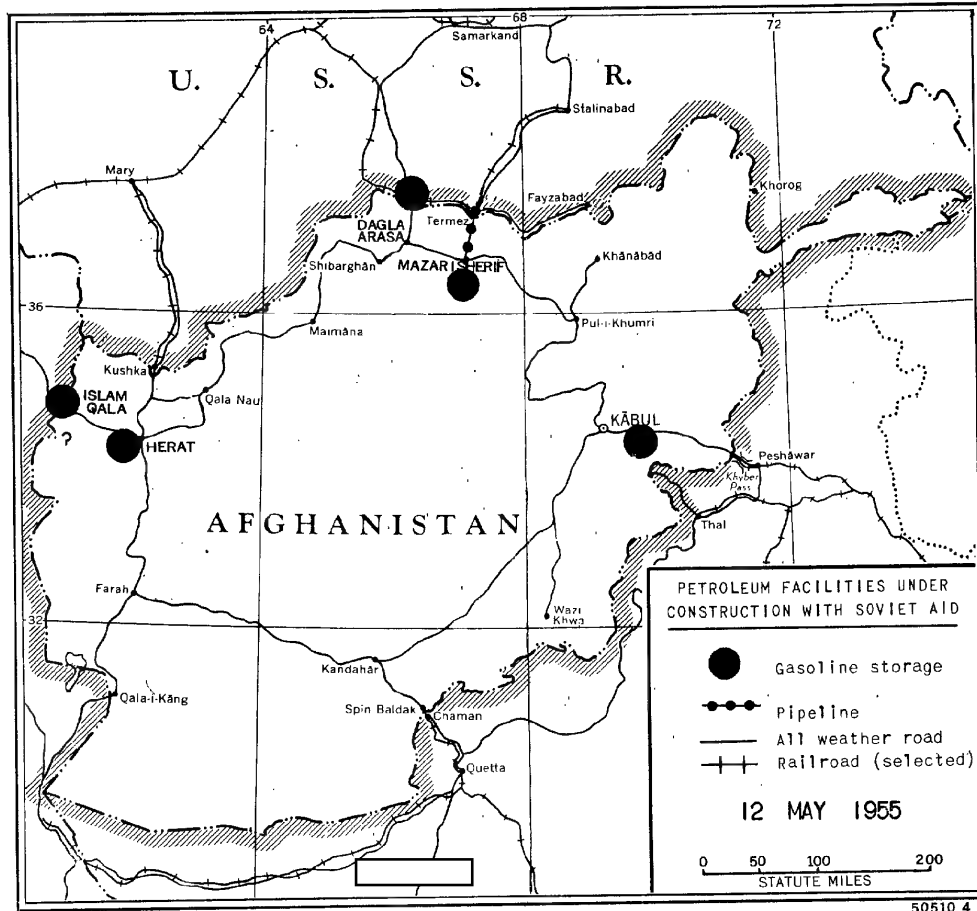
Included are the building of grain warehouses, a flour mill and a bakery near Kabul; gasoline storage facilities in Kabul, Mazar-i-Sharif, Herat, Dagla Arasa and possibly Islam Qala; and the paving of streets in Kabul and Herat, using Soviet equipment and under the supervision of Soviet technicians.

All of these projects are under way, as is the construction of a pipeline from the Russian border to Mazar-i-Sharif in northern Afghanistan. It will provide a permanent economic link between the USSR and Afghanistan and will cost more than any of the other projects.

Soviet-Afghan trade has increased steadily since 1950. The protocol for 1955 calls for trade valued at \$15,000,000 each way, a figure that would bring the Soviet share to about one third of Afghanistan's total foreign trade. It is doubtful that trade will reach such a level this year, however, since actual trade in the past has apparently fallen well short of the goals set.

In February and March of this year three Satellites

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made offers of aid to Afghanistan.

Czechoslovakia signed a protocol on 14 February providing a \$1,500,000 credit to finance construction of a cement plant. This was the first partial implementation of the agreement negotiated in August 1954, which called for a Czech credit of \$5,000,000 for Afghan purchase of facilities and equipment for industrial development.

In late February, a Hungarian official proposed to the Afghan Finance Ministry that Hungary extend a long-term credit for construction of brick, glass and other industrial plants.

In March, a Rumanian trade official proposed negotiation of a barter agreement and suggested the possibility of Rumanian assistance in oil exploration in Afghanistan.

Last year both Czech and Hungarian trade missions indicated willingness to export machinery and transportation equipment in exchange for Afghan agricultural commodities.

Assistance to Indonesia

The USSR has offered to send machinery and technicians on long-term credit at low interest rates to aid in building factories in Indonesia. No specific Soviet-Indonesian contracts have yet been signed,

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but East Germany, Rumania, and Czechoslovakia have agreed to furnish credit for building specific plants.

East Germany is to furnish equipment and technicians for a sugar mill and power plants; Rumania, a cement factory; and Czechoslovakia has reportedly offered assistance for an automotive assembly plant. In addition, Hungarian and Czech engineers completed a survey in 1954 for the construction of hydroelectric and diesel stations.

Bloc countries are pressing for increased trade with Indonesia and have indicated willingness to expand deliveries of machinery and other industrial equipment.

Offers to Burma

A Soviet official hinted last December that the USSR would be willing to furnish economic aid for Burmese industrial development. In March the first firm Soviet aid offer was reported: an

arrangement to advance a total credit of \$2,000,000 repayable in ten years to two prominent Burmese businessmen with many mining interests. The loan is to be used for the purchase of Soviet mining machinery.

China has agreed to supply Burma with complete sets of equipment for textile mills, and East Germany is to furnish "complete industrial installations."

Burma is to send 600,000 tons of rice to Soviet bloc countries in 1955, 40 percent of its total rice exports in 1954. The bloc is to supply large amounts of machinery and capital goods as well as industrial products in exchange. In addition to the 300,000 tons being delivered to China this year, Peiping has agreed to import another 150,000 tons in both 1956 and 1957.

Since rice exports constitute Burma's primary source of foreign exchange, the large share currently being imported by the bloc is of considerable significance.
(Concurred in by ORR)

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THE AFRO-ASIAN CONFERENCE IN RETROSPECT

Deep ideological cleavages marked the Bandung conference despite the issuance of a unanimously approved communiqué calling for political, cultural, and economic co-operation.

The chief fireworks developed over the issues of "coexistence" and "colonialism," the two topics which had been billed as the common denominators of the conferees. After lengthy debate, "colonialism" was denounced, but in such a way as to include Communist

expansionism; and the Chou-Nehru "five principles of coexistence" were shunted aside in favor of "ten pillars of peace" based on the concept that "nations should practice tolerance and live together in peace."

One of the most striking aspects of the meeting was the effectiveness of the pro-Western delegations. The anti-Communists seized the initiative at the very outset by delivering a series of stiff anti-Communist speeches and then proceeded to

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dominate the work of the committees which drafted the communiqué.

The anti-Communists succeeded in forcing acceptance of many of their views. Chief among these was recognition of the United Nations' authority to deal with international problems. The right of all nations to defend themselves singly or collectively was affirmed and the value of foreign economic aid was acknowledged.

Despite the successes of pro-Western representatives, however, the outstanding single individual at Bandung was China's Premier Chou En-lai.

Chou's chief objective was to win wider acceptance of Communist China in the international community. To this end he maintained an air of personal affability and "reasonableness." His speeches were moderate and he was content to let Nehru fight for him during the heated debates.

To give substance to his position, Chou used the occasion of the conference to sign a treaty with Indonesia designed to eliminate the dual nationality of local Chinese and supported Indonesia's claim to Dutch New Guinea. He also backed Arab grievances against Israel and France, invited such staunch anti-Communists as Carlos Rumulo, Prince Wan and Mohammad Ali to visit Communist China, and encouraged Japan in its hope for closer economic and diplomatic relations.

Only once did Chou indicate that he was irritated--when he demanded the right to reply to Ceylon's prime minister's violent denunciation of colonialism as practiced by the Soviet Union. Instead of giving a strongly worded rebuttal which might have

provoked turmoil, he dramatically made a "concession" to negotiate the Formosa issue with the United States.

There is no doubt that Chou made a favorable impression. The neutrals hailed his "brilliant diplomacy" and praised his "forbearance," while even the most pro-Western representatives were struck by his political astuteness.

The conference failed to meet the expectations of the neutralists, who had hoped that it would be a friendly, noncontroversial affair.

For Nehru the meeting was a personal setback. His views and leadership were rejected,

and he was forced into the awkward position of defending Communism, despite his position as the chief exponent of neutralism. Nehru ended with an unconvincing reaffirmation of his neutralist faith and urged others not to be "camp followers of either America or Russia."

Reports since the conference indicate that the various delegates came away from Bandung holding views strongly colored by the roles they played during the proceedings. The pro-Western representatives are all highly pleased over their ability to co-operate and are proud of the part they played in drafting the final communiqué.

The Communists have hailed the conference as a great success. Chou En-lai is pictured as the hero of the conference and as having led the way to greater international understanding. Communist propaganda also stresses Chou's theme that the achievements at Bandung "will be a great help to our common task of opposing colonialism, safeguarding world

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peace, and furthering friendly co-operation."

Chou's practical achievement, besides "charming" delegates, appears to have been the creation of a general impression that Peiping is genuinely seeking to relax tensions in the Far East and is prepared to make significant concessions in the interest of peace.

According to the American embassy in Djakarta, Chou succeeded in encouraging the belief, already widespread in Asia, that Chinese Communism will develop along national lines and that sooner or later there will be a parting of the ways with the Soviet Union.

Chou also made headway in consolidating Peiping's position with the neutrals, particularly with India and Indonesia. He had to pay a price, however.

By giving support to the conference communiqué, he committed his regime to a document which was molded largely by anti-Communists, and any marked departure from the principles contained therein could result in losses which might more than offset the gains achieved. Renewed offensive action in the Formosa Straits, for example, would probably revive suspicions of Peiping's sincerity, in as much as one of the "ten pillars" calls for a renunciation of the threat or use of force.

The neutrals also profess to be pleased but, except for

the progovernment press in Indonesia which grossly exaggerates the prestige accruing to the Ali regime, a strong trace of "sour grapes" is clearly discernible--particularly in Indian quarters. The Indian press, for instance, which frequently reflects official views, has vehemently accused the United States of seeking to "undermine" the conference.

Despite Indian criticism of American influence at Bandung, Nehru's report to the Indian parliament regarding the conference results was moderate. Recent statements by Nehru's closest foreign policy adviser, Krishna Menon, who is now in China to feel out the prospects for negotiations between the United States and Communist China, suggest that India's top leaders have a new respect for the extent of pro-American sentiment among the Afro-Asian conference participants.

There has been considerable speculation as to whether more such conferences may be held. Both Chou and Pham Van Dong of North Vietnam have indicated that they favor the convening of such gatherings, and the conference secretariat--probably at Indonesian insistence--is reportedly continuing to function as a "skeleton force." Other delegates have refrained from committing their governments. India, for the time being, seems exceedingly cool to the idea.

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SITUATION IN FRENCH NORTH AFRICA DETERIORATING

France is faced with a constantly deteriorating situation in North Africa despite measures apparently designed to reduce tension and meet nationalist demands.

Negotiations for Tunisian autonomy, failure to act on long-promised reforms in Morocco, and imposition of a state of emergency in Algeria have strengthened native nationalism and solidified settler pressures for continuance of the protectionist regimes.

The desire of the natives for self-rule was stimulated during World War II. Failing to achieve any progress toward this end, the nationalists resorted to disorders which have flared up intermittently since the war, particularly in the past two years.

The nationalists have never had the organization or equipment to seize control of any important area. However, by their guerrilla operations in Tunisia and eastern Algeria and by other types of terrorism, they have compelled France to expand its military forces in North Africa to nearly 200,000 troops, more than 12,000 French security police, and several thousand men in quasi-military units.

These forces have proved inadequate to combat terrorist operations. The terrorists have intimidated the local population, boycotted French goods, assassinated prominent natives who co-operated with the French authorities, murdered French residents who publicly opposed home rule for the natives, sabotaged power and communications facilities, and set fire to crops and forests. Nationalist discipline has been perfected, notably in Morocco,

so that protest demonstrations are nearly always successful.

Tunisia

France has achieved only limited and temporary success in combating terrorism in the protectorate of Tunisia.

After Mendes-France committed France last July to granting the oft-promised autonomy, negotiations began in September to determine the extent of home rule. These negotiations were hampered initially by sporadic disorders and guerrilla activity, which did not cease until early December, when some 2,500 members of an "army of liberation" surrendered in response to a French offer of amnesty.

The agreement in principle between the Tunisian and French premiers, announced on 22 April, would seem to have resolved the Tunisian problem. Further hurdles are anticipated, however, during the drafting of the series of conventions defining the ties linking France and Tunisia, the status of French nationals, and other matters, such as the timetable for the transfer to Tunisian control of local police and similar services.

Major issues resolved only by personal agreement of the premiers are almost certain to be raised again. Considerable acrimonious debate may also occur when the conventions are submitted to the French National Assembly.

The Tunisian bey will probably assent, but he may delay, as agreement was reached only by the intervention of Habib Bourghiba, national hero and chief of the Neo-Destour, the main nationalist party. Bourghiba's "democratic ideas" long ago

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aroused the bey's fears for his own prerogatives.

Denunciation of the agreement by the Neo-Destour secretary general, leader of the party's extreme right wing, and by the organized French settlers and civil servants in Tunisia, complicates the eventual implementation of autonomy.

Unemployment and near famine conditions, especially in southern Tunisia, will also affect the country's immediate political future.

Prolonged uncertainty with regard to Tunisia's future status increases the likelihood of a split in the Neo-Destour and the resumption of terrorist activity by the unemployed, led by the party's extreme wing.

Morocco

France's attempts to make administrative changes in its Moroccan protectorate have encountered an apparently insurmountable obstacle in the dynastic issue. Most Moroccans are loyal to the former sultan, Mohamed ben Youssef, who was dethroned by the French in August 1953. Ben Youssef is now a symbol of nationalist aspirations, and the nationalists oppose any changes which might be made under the authority of his successor.

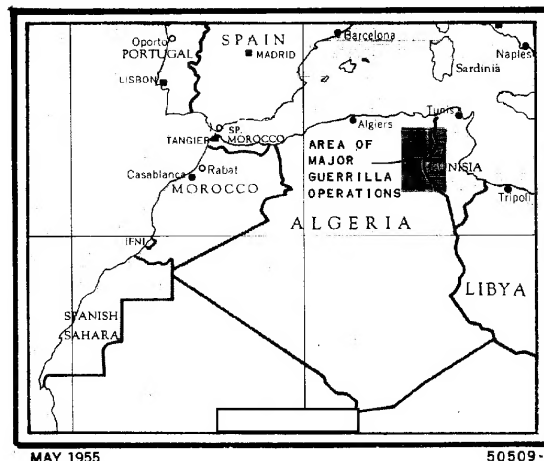
The French settler minority which backed dethronement of Ben Youssef refuses to support replacement of the

present sultan and will not consider any changes involving home rule for Moroccans.

Terrorist attacks following the removal of Ben Youssef were directed first against Moors who co-operated with the French and were expanded later to include French opponents of nationalism. Several hundred persons have been killed and more than 1,000 injured.

French settlers, with the collusion if not the actual leadership of the police, have responded with counterterrorist attacks on prominent national-

ists. The imprisonment or exile of moderate leaders has left the dominant nationalist party, Istiqlal, a prey to extremists. Tension has mounted as influential moderate Moroccans and French have left the country for safer residence in Tangier or France.



Political unrest has been intensified by increasing unemployment and the precarious condition of many French and Moroccan small businesses, which have been affected by nationalist-directed boycotts. Make-work projects and efforts to induce investors to undertake long-range programs have not been notably successful.

The formation in March of the Moroccan Union of Labor (UMT), under the auspices of the anti-Communist International Confederation of Free Trade Unions (ICFTU) and in violation of the existing ban

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on all-native unions, directly challenged the French authorities to take some action. Their failure to do anything except declare the organization illegal is symptomatic of the dilemma in which they find themselves.

The French authorities in Paris and Rabat appear to be marking time, possibly hoping that nationalist passions will abate. Meanwhile, many formerly pro-French natives have been alienated, French settler lobbies seek to maintain their privileged status, and Moroccan nationalists continue to look for foreign assistance. The nationalists allegedly are seeking to equip and train themselves for guerrilla operations patterned on those in Tunisia and Algeria.

Algeria

The co-ordinated terrorism in Algeria on 1 November was followed by reinforcement of military and security forces there as well as by repression of nationalist activities. Only the small extreme nationalist party, the Movement for the Triumph of Democratic Liberties (MTLD), was outlawed, however. This repression served to heal the breach between MTLD's extremist and moderate wings, and the party now operates clandestinely.

Immediate charges by French officials of Communist involvement have not been substantiated, and French authorities are looking for proof that these guerrilla bands were trained and armed by Arab countries.

After five months of military effort failed to dislodge the guerrillas in eastern Algeria, a state of emergency was put into effect on 7 April. It was hoped that all dissidence would be wiped out when authorities were empowered to

suspend normal civil liberties in the Algerian departments, which are an integral part of France.

The emergency measures, the replacement of the governor general, the integration of Algeria's police forces with those of the metropole, and the lack of any apparent intent to effect the provisions of the Algerian Statute as announced in December served mainly to calm the European minority.

Algerians generally, including those who have been assimilated into French culture and who advocate wiping out the second-class French citizenship status of most Algerians, are antagonized by these repressive measures.

The present trend is, therefore, for the breach between Algerians and French to widen and for nationalist sentiment to intensify. The possibility now exists that an influential and significant native nationalist organization may emerge.

Nationalist Capabilities

In spite of the identical objectives of nationalists in Tunisia, Morocco, and Algeria, there has been little apparent co-ordination among them and as yet no concerted action. They have no military forces and only small quantities of weapons and funds, and lack an easily accessible area in which to stage an invasion army, if one could be raised. The nationalists cannot hope to gain their objectives by military means.

They have, however, used successfully the means at their disposal--hit-and-run guerrilla operations, assassinations and intimidation. These tactics have tied down a large portion of France's military strength, thereby

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detracting from NATO's military capabilities.

Thus far the Communist Parties have been unsuccessful in their attempts to co-operate

with or gain control of the nationalist movement, but prolonged frustration of the nationalists may turn them individually or collectively toward Communism.

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